

Vodafone Group

Analyst and Investor Conference Call

21 May 2013

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Highlights FY12/13

Vittorio Colao

Chief Executive, Vodafone Group

Good morning. Welcome. Thank you for coming to today's presentations. We will follow the usual order today. So, I will give you the highlights; then Andy will cover the financial review; Steve Pusey and I will come back covering commercial, strategic and technology update; and then, after my summary, I will be joined by the three regional CEOs for handling your questions.

So, these are the highlights of the year:

- Full year organic service revenue is down -1.9%; Q4 -4.2%. This is a similar underlying performance to Q3, once you take into account MTRs impact and working days effect, which amounts to about 1.5 percentage points.
- Europe remains difficult for us, especially in southern Europe, due to the macroeconomic environment. And also we continue to have an adverse impact from the regulatory environment. On the positive front, data keeps growing, +14%, and emerging markets continue to display a good performance: India +11%, Vodacom +3%, Turkey +17%.
- Adjusted operating profit up +9% to £12 billion, guidance exceeded, and free cash flow at £5.6 billion; again, it's at the high end of the guidance and, actually, if one takes into account FX and Cable & Wireless, we are at the top end of the guidance of cash flow as well.
- Dividend announced this morning to be up 7%, as planned, 22% increase over the last three years.
- Verizon Wireless, continuing strong growth and continuing strong cash flow. Of the £2.4 billion dividend decided in December, we have committed £1.5bn to buyback. Of the £2.1bn dividend in June, which was announced last week, we decided that that would be retained within the business.

I will cover later the strategic progress. Mostly, I will talk about:

- Vodafone Red, which is going very well – four million customers.
- About our continuing unified communications strategy: purchases of Cable & Wireless and TelstraClear being integrated; additional fibre deployment announced and start in a couple of markets; and, of course, the very good deal with DT on wholesale of last week.
- And, of course, continuation, and Steve will cover it, of 3G and 4G investment.

I will, then, hand over to Andy for the detailed financial review.

Financial Review

Andy Halford

Chief Financial Officer, Vodafone Group

Thank you, Vittorio, and good morning everybody. So, let's just go through the key numbers here:

- So, £44.4 billion of total revenue.
- £40.9 billion of service revenue. Service revenue was down -1.9% for the full year. If you ex out MTR effects, it was up very slightly, by +0.2%. And as Vittorio said the fourth quarter was down -4.2%, a little bit worse than third quarter, but that difference wholly explained by the leap-year effect in the fourth quarter and the slightly more adverse MTR effect in the fourth quarter.
- The EBITDA at £13.3 billion, which is stated after £300 million of restructuring charges, gives an organic margin down -0.5 percentage points, but, of that, 0.4 relates to the restructuring charge, so, essentially, on an underlying basis, the margin was only down -0.1 percentage point year on year.
- Depreciation and amortisation, pretty similar to the previous year.
- The associate income – Verizon Wireless income – up very strongly, 30% or so, to £6.5 billion.
- And the consequence of all of that is an adjusted operating profit that was £12 billion, up 9.3%.

If you state the adjusted operating profit on the same basis as we did the guidance, the equivalent number is £12.3 billion, which is above the top of the 11.1-11.9 range that we guided at the start of the year.

So, moving on to the lower half of the income statement:

- The financing costs were about £200 million lower year on year, primarily due to a lower level of debt in the business on average, and some of it due to lower mark-to-market costs.
- The tax cost was about £300 million higher – I will cover this in a little bit more detail later, but that is primarily about the higher mix of US profits with the higher tax rate.
- Other net gains: we have done a fair-value exercise on the assets we acquired as part of the Cable & Wireless [Worldwide] acquisition, compared that with the purchase consideration, and we have booked a gain there of about half a billion pounds.
- On impairments, we have taken a further £1.8 billion charge in the second half to do with Italy, and that brings the total charge for the year to £7.7 billion, which is to do with Italy and Spain for that full amount.
- Adjusted earnings per share, 15.65 pence per share, which is up 5% year on year.
- The ordinary dividend, as Vittorio mentioned, is going up by 7%, consistent with the three-year promise we made on 7% increases a while ago.
- Free cash flow – I'll go into more detail on this later – £5.6 billion is the final number for the free cash flow. On the same basis that we did the original guidance, that is £5.8 billion. That is, therefore, absolutely at the top of the original guidance range for the year.

So, let's move on to the service revenue and the walk from the previous year to last year:

- So, the previous year, £42.9 billion.

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- Take out the impact of foreign exchange, particularly with sterling strengthening, adjust for Cable & Wireless [Worldwide], and the comparable number is £41.7 billion, so £41.7 billion has become £40.9 billion.
 - Key moving parts moving across the page there, as usual, the MTR effect is something just shy of £1 billion.
 - The underlying voice revenues, down about 6%, primarily pricing pressures. Overall volume of minutes, actually, was up 8%.
 - And a similar story, actually, on messaging, where prices were down but the messaging volumes were actually up 12% to over 350 billion text messages delivered in the year.
 - Data revenues continued to grow strongly, so those grew 13.8% to £6.7 billion, and those now represent 16% of the total service revenues for the Group.
 - The fixed revenues were fairly stable – a little bit of increase on wholesale revenues, particularly in Germany, Italy and Spain.
 - Overall, £40.9 billion of service revenue for the year. In Europe, about 50% of the mobile service revenues are now in bundles.

Just in terms of the growth and the split by region, just as a reminder of the three controlled regions – obviously this does not have the US on it:

- Northern & Central Europe, which is just under one half of the total revenue pool; that had, essentially, a flat growth profile for the year.
- The second-largest revenue pool is the AMAP/emerging-markets region, which grew revenues by just under 4%.
- And the challenge has been in Southern Europe, which is just under a quarter of the revenues, where the revenues went backwards by 11.6%.

So, just looking at the weighted average 1.9% by country, not a great surprise:

- On the left-hand side, the countries that have already grown very strongly – the Ghanas, the Turkeys, the Indias; businesses we bought around four of five years ago. Interestingly, on the average all of those businesses are at least now double the profitability of when we bought them and, on the average, all of them have grown their revenue market share by a percentage point per annum since acquisition.
- Egypt, then, moving across the chart, a good performance in quite a difficult market still.
- Vodacom, up 3% as a group, but, within that, particularly strong growth from their International businesses, which were up about 23%.
- And then the other European markets, which Vittorio will comment upon later on.
- And on the right-hand side, the Southern European markets and their adopted brother, Australia, all in the 11-13% negative territory.

The MTR effect was about 2.1 percentage points to the Group overall last year, and we'd expect it to be similar in the year that we are just in, before the following year, FY 14/15, we will see a reasonably sharp reduction and drop below one-percentage point of MTR drag for the first time in many years.

If we do the same chart with Verizon Wireless on a proportionate basis, then Verizon Wireless, being 60% or so of our net worth, comes in at number-four slot, with an 8.1% growth in its revenues, and that moves the Group's -1.9% to a +1.2%. And actually, if you then do it on an ex-MTR basis, that number further moves to +2.7% pre-MTR, proportionate revenue.

So, on to margins. I said earlier that the impact of restructuring being quite significant; I think this chart just does the walk across.

- So, the published margin a year ago was 31.2%.
- If we normalise for FX and M&A – clearly, Cable & Wireless [Worldwide] having a lower margin – then the rebased equivalent is 30.4%, and the actual number was 29.9%, so a reduction of 0.5ppts.
- Just going across the chart, Italy has dropped, primarily because of the top-line pressures.
- Germany was a little bit weaker, particularly year on year in the first half; slightly less so in the second half.
- India and Vodacom both making significant progress now in really getting scale efficiencies and scale economies coming through.
- And then the restructuring of 0.4ppts to give the 29.9% overall.

We've guided for the year we're now in to a slight reduction in the margin. It is obviously not the most precise number to be able to forecast hugely accurately, but a slight reduction.

So, on to operating expenses. Significant focus continues to get cost out of the business to become more efficient, to become more effective. The three-year trend, you can see here, so a £0.1 billion reduction last year compared with the previous year. That is against the backdrop of very significant increases in network volumes, data volumes etc. And the target for the year we're now in is to get to £6.5 billion, so a £0.3 billion reduction.

On the right-hand side, a number of initiatives there listed on projects that we're undertaking:

- Reduction in the number of European network operations centres down to two.
- More active sharing, particularly in the shared-services area, a journey we started about four years ago. We have gone now to about 8,000 employees in those centres. We will go up to 10,500 by this time next year, saving about £100 million per annum.
- Procurement, which we have centralised in large part; we have now put the terminals processes in with the rest of our procurement, and we will see the overall volume now going through the centralised team jumping from about €5 billion to €11 billion.
- And then, on support costs and non-customer-facing costs, we have done a very significant review and are taking out a lot of costs in that space, with about a 10% reduction targeted.

So, a number of other initiatives in the businesses, closing down and relocating less utilised base stations, e-billing and things of that ilk, but a significant focus. This will be our biggest year-on-year reduction in our costs at the end of the FY 13/14 year.

So, let me change, then, and move across to Verizon Wireless: two charts. The first one is primarily focused upon quarterly information; and then the one after talks just a bit more about the longer term.

- So, top left here is service revenue, which, as you can see, has grown very nicely, very steadily, at around 8% over that period.
- The Share Everything plans that have now been launched in the US are now accounting for about 30% of the postpaid base; smartphones are now around 61% of the postpaid base in the US; and the net debt at the end of March down to just over \$6 billion, and free-cash-flow generation at \$13 billion during the year.
- The chart on the bottom left, quite an interesting one: this is the EBITDA margin in the fourth quarter of each of the last three years. Three years ago, 43.7%, then 46.3% and, most recently, 50.4%. The business has guided to a full-year margin somewhere in the 49-50% range for the calendar year we are now in.

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- And then the chart on the bottom right showing the progression on LTE, where Verizon Wireless clearly have a significant market lead and now have about a quarter of their retail connections on the LTE network.

This [next] slide just takes a slightly broader perspective and looks back over a five-year period.

- So, top left, revenues going up from \$48 billion to \$69 billion over that period of time – a 43% increase.
- The EBITDA has gone from \$21 billion to \$31 billion, and I think average consensus for this year is near \$34 billion.
- Operating cash flow has gone from \$14 billion up to \$22 billion, so most metrics, give or take, 50% increase over a five-year period.
- Retail postpay net adds have started to gain traction again with the LTE rollout and are now back up to the levels they were at four or five years ago.

So, overall, a great and a hugely valuable asset to have in our portfolio.

Now, on to tax:

- The published effective tax rate, at 24.5%. There are one or two one-off items – more deferred tax than anything else. If you strip those out, the underlying rate about 28%.
- We're now of the view that the effective tax rate for the Group is more likely to be high 20s than mid 20s going forwards, and that is primarily because of the increasing mix of the profits to the US, which have got the higher tax rate.
- Now, the good news is we get a tax distribution from Verizon Wireless that fully covers those payments, but overall a slightly higher tax rate as we go forwards.

So, free cash flow: I said earlier that that is at or around the top of the range. This gives a quick sort of walk of the major component parts:

- So, £13.3 billion of EBITDA.
- The cap adds, at £6.3 billion, were pretty much flat with the previous year. Steve will talk to that in a minute.
- Working capital: another push on the working capital.
- Net interest, as I said, just slowly lower.
- Tax costs are higher. That is mostly US-related, partly because the profits in the US are higher; partly because the bonus-depreciation allowances are slightly lower; and partly because some internal restructuring has put more of the tax on the partners and less of the tax actually within the business, and therefore has changed the mix between the AOP and the tax line by about £300 million.
- Tax distributions then have gone up commensurately in order to cover that, so, net-net, those wash their face.
- And then various smaller items down below. So, £5.6 billion, and add in the Verizon Wireless income dividend that we received during the year, at £2.4 billion, and the total cash income for the Group was £8 billion.
- And as Vittorio mentioned earlier – and as you are aware – we recently announced that we will have a further £2.1 billion coming in physically in June, and that we will retain in the business for general business purposes, including upcoming spectrum auctions like in India and other countries, as and when those occur.

So, moving on to the balance sheet and the overall debt position:

- £27 billion of debt at the end of the year – a pretty comfortable position, I think, on the debt front.
- The moving parts there, the £5.6 of the free cash flow that I've just talked about.
- The equity dividend paid, at £4.8 billion, so the dividend well covered out of the ongoing cash flows.
- The Verizon Wireless income dividend, £2.4 billion.
- The share-buyback programmes, £1.6 billion, and clearly we're still mid-flow on the last of those.
- The SoftBank proceeds received earlier in the year, £1.5 billion.
- The net effect of acquisitions – primarily Cable & Wireless and TelstraClear – £1.7 billion.
- Licence and spectrum purchases, £2.5 billion.
- And then FX, which has clearly impacted slightly at the end of the year, particularly to give the £27 billion of net debt.

I think the chart on the right is quite an interesting one. This is taking a four-year view. We have generated £51 billion of cash in the business; we have received £5 billion of income dividends from Verizon Wireless; we have benefited by £10 billion from the net impact of disposals and acquisitions. And out of that, we have spent £24.5 billion on capex; we have spent £8 billion on spectrum, largely buying the raw material for the business for the next 15 or 20 years; we have returned £27 billion over that period to shareholders; and we have got a net debt figure £7 billion lower than what we started with.

So, on to guidance:

- As I said earlier, for the FY 12/13 year, we had guided on adjusted operating profit of £11.1 billion - £11.9 billion; we have come in at £12.3 billion
- Free cash flow, £5.3 billion - £5.8 billion; we have come in at £5.8 billion.
- We said the margin erosion would be lower; at -0.1ppts, it is lower.
- And the capex pretty similar to the previous year.

So, ticks across all those boxes, and we have even guessed the euro/sterling FX rate to an accuracy of 0.5% on average over the last two years as well.

FY 13/14 guidance: so, we are targeting £12.0 - £12.8 billion of adjusted operating profit and around £7.0 billion including the June dividend from Verizon Wireless for the free cash flow. As I said earlier, margin may be a little bit weaker than the current year, but only slightly, and the capital expenditure at similar levels, albeit a slightly higher mix towards fibre and to other spend in the fixed world.

Now, a complete change of topic – the highlight of my presentation: accounting changes, just so that we haven't forgotten it. The proportionate accounting of JVs ceases from here on in, and that means, particularly for Italy, that we will, in the future, account for that the same way that we have accounted for Verizon Wireless in the past, so we don't have its revenue, EBITDA etc. We just take the net income down at the bottom. We have published the previous results on the new basis in the appendices. We have got these results on the new basis. It takes roughly 15% out of the revenues and EBITDA, but, by the time you get down to net income and EPS, you come back to exactly the same place as you started.

And on the right-hand side, a slightly different topic. One of the things we've been giving a lot of thought to recently is the classification of the different revenue streams in an increasingly bundled world. How we actually allocate a bundle between voice, messaging and data is becoming incredibly subjective and, therefore, we are going to move onto a new basis, where, instead, we will look at revenues that are in bundles – i.e. contracted; mobile revenues that are out of bundles; and separately to look at mobile incoming and fixed and other revenues, so that, actually, we have got something that, I think, is more tangible and more actionable.

So, finally, a brief summary from me:

- £5.6 billion of free cash flow; £5.8 billion on a guidance basis; £8 billion, if you include the overall dividend from Verizon Wireless.
- We have grown the adjusted operating profit and the EPS, even though it has been quite tough in Europe.
- The balance sheet continues, I think, to be in a very good place.
- The focus upon costs has limited the impact of margin erosion.
- Shareholder returns continues to be centre-stage, so the 7% growth in the dividend; a commitment to at least maintain the current level of DPS going forward; £1.6 billion of buybacks during the year; and another £1.1 billion from the remainder of the commitments.
- And then the forward guidance: £12 billion - £12.8 billion on profit, and around £7 billion, including the £2.1 billion dividend from the US, for free cash flow

I was trying to think of the right caption for the man on the right, which I think should be, 'Man with £2.1 billion in his bag checking delivery address.' With that, I will pass to Vittorio.

Business Review

Vittorio Colao

Chief Executive, Vodafone Group

I wonder where did you find that picture, Andy? It's just a lunatic. Very good. So, detailed operations review. This time I will not go by geographic order and, from now on, I think we'll follow the order which is more relevant, which is EBITDA contribution. And as you will see, things, actually, are changing.

Let's start with Germany, which has not changed. It is still the most important contributor to the Group.

- Overall service revenue declined -3.5% in Germany in the quarter. If you look at mobile service revenue, it is a little bit better, but still negative, -2.8%. Positive development on data revenue, data revenue growth, +11%.
- In Germany, smartphone penetration is up 12 percentage points. If you look at the bottom chart, you see contract penetration 53%; the average is 35%.
- We continue to push LTE in Germany. We have now 61% population coverage and around half a million customers who are either on fixed or on mobile contract on LTE.
- A little bit of contraction in EBITDA margin, 1.2 percentage points. It's a reflection of pushing our contract and trying to remain competitive on the contract side. A part of it, however, is also restructuring cost, about 30 basis points.
- We have made the deliberate decision to invest more in Germany this year, so, even if the total capex envelope is constant, we actually have reallocated money, depending on returns. We have invested €286 million more than the previous year, and this is mostly network enhancement, transmission, core, LTE and, basically, future network priorities.

So, going ahead, priorities for Germany are:

- To continue to push the Red pricing plans.
- Clearly, to leverage on the new capability acquired in fixed line with the deal that we have announced last week with DT on NGN access.
- And maintain the leadership on 4G and LTE.

Second opco by relevance is still Italy:

- Now, service revenue in Italy is down -17%. There is a very big impact of regulation, so seven percentage points of that are MTR cuts. But clearly, there is an economic adverse environment in Italy. In Italy, we have enterprise down -17%, prepaid down -23%, and even fixed line is down -8%.
- On the positive front, very good success of Vodafone Red. Now 40% of our contract consumer customers are on Vodafone Red. This is driving in-bundle revenue, which is a very healthy and positive thing for us, and also fuelling mobile internet growth, which is now at +29%.
- We have got some contraction of EBITDA margin. It's 4.3 percentage points. This is partially the much higher weight of contracts in our customer base, which, per se, is a positive, but also, of course, pricing pressures in a market which is becoming pretty belligerent on the pricing front.
- We have partially compensated the impact of those with cost initiatives. Most of them have been already announced, but clearly we need to continue to do more in that space.

- In the mean time, we have not stopped the LTE investment in Italy. We now cover 21 cities and we want to maintain the price premium that we have declared.
- So, the priority going forward for Italy is clearly to improve the commercial performance and to maintain ... to try to stabilise the business in an environment which is still, from an economic point of view, difficult.

Now the third opco by relevance here is Vodacom:

- Vodacom has a service revenue decline in the quarter of -0.9 percentage points; however, if you strip out MTR impact, the number becomes a 1.4% positive. South Africa has slowed down to -2.2%. Again, there's a bit of an economy effect, but also a price rebalancing that our colleagues have deliberately activated in the market.
- Very positive is the growth of the international business of Vodacom, +23% – Tanzania +34%, Mozambique +25%, so international is becoming bigger and more of a reality in the Vodacom operation.
- We continue to use network in Vodacom as our key differentiator, first to launch 4G in South Africa, first to launch 3G in the DRC.
- And most importantly, the money transfer platform, which used to be a Kenyan thing. For years, we have been talking about Kenya as this unique country, now is becoming a more widespread solution across Africa. Tanzania, now we have 14% of revenues and about five million customers active there. We launched in the DRC; I think we launched in November in Mozambique; we will launch in Lesotho. This is becoming a key strategic feature of Vodacom, and I will cover it a little bit later, because it is important.
- On the positive front, margin expansion in South Africa from 34%, bottom part of the chart, to 36%. This is the result of tighter cost management but also more discipline in managing prepaid calling cards and distribution in South Africa.

So, priorities going forward: we want to continue to have network and quality leadership in South Africa; we want to continue to push for penetration in the African markets and, of course, M-Pesa, as I said.

Now, the fourth opco by relevance is now India. India is the fourth contributor to Vodafone.

- Service revenue growth in the quarter is reported at +7.2%. It is lower than in the past. This is mostly, let me call them regulatory constraints. On the one hand, customer verification procedures that have been introduced, which have slowed down the growth of the base. And on the other hand, also some regulatory changes on processing fees and SMS opt-in rules.
- However, the competitive performance of India continues to please us. We gained market share. We are now at 21%. We are clearly the number two player, challenging the number one in many areas.
- The base quality has also improved. Clearly it's also a consequence of the stricter rules, so we cannot take full credit for it, but 96% of our customers are now active, and ARPU is up +8%.
- Now, the most important thing about India is data. Now, data revenue grew +29%, with browsing revenue up +50% and usage up +100%. But up to +100% to about 150 MB per month, which is very low, compared to any standard. So the potential, I think, is very good. And again, like Vodacom, if you look at the bottom part of the chart, the EBITDA margin in India has been reported at 28.7%, which is higher than several European markets.

Going ahead with India, our priority is:

- To continue to support operational and commercial momentum.
- To drive data – we only have 3 million 3G active customers in India out of a customer base of 152m, so there is a huge opportunity in data, and the early signs, finally, are positive.
- To roll out M-Pesa – and again I will cover later.

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- And then to manage the usual regulatory set of issues, including spectrum extension, 3G roaming and all the other things that we are all aware of.

The fifth country relevance – the UK:

- In the UK, the market continues to be competitive. We have been performing well. We have 11.1 million customers, contract customers. We have added 800,000 in the year. Contract customers are now 58% of our base in the UK.
- I have to say we start seeing also some churn improvement. Vodafone Red is doing very well in the UK. We have some churn improvement.
- We've got a little bit of a margin contraction, half a percentage point, but I would like to point out, as my colleague Guy Laurence always reminds me, that, despite the fact that we are not the biggest player in the market, we still have the best EBITDA in the market.

So, going forward, what are the priorities?

- First of all, the launch of true LTE, or the good, well-working LTE at 800 MHz that will be coming before the end of the summer.
- Continue to grow Enterprise, and integration of Cable & Wireless, clearly, is adding strength in that area in the UK.
- And deliver the cost reduction programme, not just but mostly on the network side, with the joint venture with O2.

Finally, Spain: Spain continues to be a difficult market for both a macro and employment conditions.

- Service revenue is down -13%. It's a little bit below the previous quarter. Our sense is that we are still paying the consequence of the decisions to slow down on subsidies that, at some point in the year, we made, and clearly that has a little bit of an impact which we are seeing now.
- On the positive front, data is good in Spain: plus +17% in data growth.
- Smartphone penetration is also accelerating in Spain, 15 percentage points, which is quite remarkable.
- And also in Spain, Vodafone Red is taking some momentum, especially recently.
- Margin in Spain has improved. It's a lower margin than what we were used to, but it has improved and this is actually the positive side of the decision on subsidies, so everything has to be seen in context.
- Important news in Spain are convergence. There has been a lot of talk about Fusión and the impact on the market. We estimate that a little bit less than half of the new market is now converged. It's between 45% and 48%.
- The chart bottom left indicates the impact of our decision to bundle DSL into Vodafone Red, so to have our own quadruple play. And, as you can see, we have turned a negative 26,000 and 20,000 net adds performance in fixed broadband into a positive 38,000, so that is also helping us to be more active in and more competitive in fixed line.

Priority going forward:

- Clearly, to continue to reduce the costs and to push Vodafone Red.
- We are about to commercially launch our own VDSL. We need to continue with implementation of the agreement with Orange on deployment of FTTH. It will be active before the end of this financial year.
- We will also have some fun challenging the regulatory position of Telefónica on high speed fibre lack of access.

So, if I raise a little bit out of all the operations, where are we in the implementation of our strategy? The challenges that we have today are basically the same that I illustrated to you six months ago, in November: macro, essentially in Southern Europe, and regulatory pressures. But the positives are the same; if anything, actually, the positives have reinforced, as I will indicate to you with a couple of slides. There is growing demand for data and there is growing demand in Enterprise to get mobility into their workforce and, most importantly, into the way they work. We illustrated in November our vision:

- We want Vodafone to be a scale data company in the house, in the home and in the office.
- We want to be a leader in emerging markets – in the profitable emerging markets.
- Selectively innovating where we have something which is unique to us.
- And of course, be cost effective.

As I will illustrate with two or three slides, I think we have made some good progress there.

So, first of all, data – a few factoids:

- One in three people use their smartphone to watch video now, and of course that is driving data growth.
- Tablet penetration: tablet has been talked for a lot of time about is it happening/is it not happening? Now, in the UK, 20% of people have tablets, so it is happening.

And our progress in data, as indicated in the chart, is pretty good. As you can see, we continue to increase the percentage of revenue that comes from data. We have 87% of our traffic in Europe now being data but, as Steve will cover, we continue to have an average utilisation and an average saturation in line with the historical parameters, which means we are able to follow the data growth with good quality and good performance.

And on the right hand of the chart, there's statistics that I think are more reassuring:

- +38% usage at individual level; 350 MB, still lower than the US or other markets, but clearly an indication that we have an opportunity. The way we phrase this opportunity internally is 40% target penetration for tablet.
- Two out of three people using mobile devices to watch TV, to get entertainment.
- And three connected devices per average user. Keep in mind that, today, the number is below two.

So, we think that, in the next two or three years, there will be a great opportunity in this space.

If you see what we have been doing in the last three years, the left-hand part of the chart indicates that 67% of our revenues are coming now in the contract consumer space, from integrated tariffs. This is voice, data and SMS together. So we are, in a way, future-proofing our revenues relative to disintermediation – WhatsApp, Skype, all these things. What I like of this chart is that not only we have the sophisticated Dutch and Brits using smartphones, but you see the increment in Spain or in Italy is now very significant, which means that what we announced and, of course, Red is an important part of this is happening. We are future-proofing our revenue.

On the right-hand part of the chart, you see that we moved in one year from 47% to 54% of our revenues being in-bundle, and we are reducing the dependence on metered traffic. So, when I get the questions about, 'How do you feel about Skype? How do you feel about WhatsApp?' I say I feel that these are just services used on our own access and, as long as customers pay for that, we are happy with those things.

Now, Red is, of course, an important element of this. Red is not just a pricing plan. Of course, it is a pricing plan, but not just a pricing plan. It is unlimited voice, unlimited SMS, generous data, more transparency on the device cost, so allowing customers to choose a little bit more how much they want to pay, additional services, additional options, and the possibility to attach family and other devices. We are now active in 14 markets in Europe; 4.1 million customers as of, I think, last week. 2.9 in consumer, 1.2 in enterprise,

amounting to 8% of our contract base. In the chart, we put an example. This is just one of many different implementations of a small, a medium and a large: different level of data and a different price attached.

I got a lot of questions in my meeting with investors and analysts on, 'Yes, but how is it going?' and these are the statistics:

- So, first of all, Red customers use twice as much data as the non-Red customers, so we are eventually pushing into the, let me call it American space. We are not at the 1 GB yet but it's 700 MB month.
- Red customers are much happier, much more satisfied with the value for money that they get. It varies by market, of course, but it is between 10 and 16 percentage points of higher NPS.
- We have an ARPU dilution of about £4 between those who upgrade and those who downgrade. This in line with our expectation.
- And we have a better, let me say economic efficiency of the handsets/device-subsidy thing by about 7 percentage points versus a non-Red customer.

So, this is very reassuring and this is why we have basically decided to, first of all, have a target of 10 million Red customers by the end of the year. We are adding additional features, so more SIMs, more family plans, more options. We want, clearly, to consider other services to be part of the main Red, especially the high-end Red plans, and we have plans to introduce also to prepaid.

So, 10 million is our target and we are convinced that this is turning us if not in a full fantastic accretion situation like the US one, at least it is going in that direction, and our intention is, of course, to be as close as possible to that model.

Now, emerging markets are different but there is a big data story in emerging markets as well:

- First of all, emerging markets are now an important part of Vodafone, as you can see from the chart: 30% of revenue; 31% of EBITDA; 33% of cash flow. This is happening because, as Andy has said, we have been in the last five years able to improve the profitability of those markets, but also we have been able to be very efficient in where we put the capex and the investment money.
- As you see from the bottom part of the chart, 28% of the customer base in the market uses data. The equivalent number for Europe is 48-50%, so huge potential, and only 12% of revenues are coming from data.
- And of course, voice is much cheaper there.
- So, the crossover or compensation effect that we are seeing to some extent in mature markets is not there.

Going ahead, there's no fixed line. There are cheap smartphones and a lot of applications and a lot of very affordable customer experiences that we can offer to them. So, data will be, together with penetration, an important element in emerging markets as well.

Two words on M-Pesa:

- As I said, it's not Kenya anymore. It's 18% in Kenya but it's also 14% in Tanzania. We launched in other African markets, but there is one big prize out there, and the big prize out there is the 700 million unbanked individuals of India. We launched in three circles in India. We have the plan to launch nationwide progressively by the end of 2015, and we are convinced that this could be another great case of innovation based on an asset that we actually own and we actually can monetise.
- In the mean time, in the more advanced, mature M-Pesa market of Kenya, we are going more into real banking products, with fully fledged financing and credit products. M-Shwari has already 1.2 million customers there and, again, we will learn and then we will try to migrate into other markets.

One word on Enterprise:

- Vodafone 2015 is also Enterprise. First of all, Enterprise has slowed but, as you can see from the chart, the real factor here again is Southern Europe. Enterprise today is 27% of Vodafone service revenues, so, as much as we are a little bit less Europe and more emerging markets, we are also a little bit less consumer and more enterprise.
- We have good growth in AMAP, and our key services and products are doing very well. As you can see from the chart, Vodafone One Net is up 26%, Machine 2 Machine is up 20%. We have 11 million connections just on our global platform, so excluding the local Machine 2 Machine connections.
- And Vodafone Global Enterprise continues to grow nicely in a tough year: +5%; six million connections.
- We also have Vodafone Red, not worth spending too much time, other than for saying that also Enterprise customers use much more data once they get into Vodafone Red, so twice as much as what they use before. So, Enterprise is another important pillar of our strategy, where we have made progress.

Now, you cannot, of course, talk about strategy and the future without talking about convergence. In November I said that if we want to be big in the home, if we want to be big in the office, we need to have a flexible approach and we need to have access to infrastructure with a market-by-market strategy. We indicated three pillars:

- One was wholesale, which is, of course, low-capital but requires regulatory clarity and good conditions. I'm glad to report that, as of last week, we have been able to include an agreement with Deutsche Telekom for access to layer 3 and layer 2 NGN, including IPTV services, with a lot of both operational and economic positive conditions for us.
- That was one of the three ways we indicated we would proceed, but we also indicated that we would proceed with our own fibre deployment, where either there is no access to somebody else's infrastructure or we see a concentration case. We announced that we want to double the homes passed in Portugal from half a million to one million, with, I think, about €100 million investment.
- And we announced a deal with France Telecom, with Orange, in Spain, to pass three million homes and then six million homes with FTTH solution. Finally, M&A we did the TelstraClear deal. We have Cable & Wireless. Clearly, where there is value creation, where there are cost synergies, that's another option, and I have to say the UK, as I said, is benefiting from a much stronger set of assets that allow convergence mostly in the Enterprise as a strategy in the UK.

Talking about Cable & Wireless, two words here. First of all, with Cable & Wireless, another dimension of Vodafone has changed. We now have about a quarter of our revenues, as you can see from the pie chart, which are non-mobile in Enterprise:

- The revenue pipeline is growing very well; it's up +26% versus last year.
- We have decided to accelerate the integration. We accelerated the brand integration; we accelerated the integration of the two organisations.
- We have execution underway to put the fibre into our own sites in the UK. And we already had, at the end of the year, 30% of the traffic IP traffic internalised on Cable & Wireless. I think the more recent number is closer to 40% than 30%, so there is another benefit there.
- And of course, we are reducing corporate overheads; we are integrating procurement, and doing all the other things.

So, it has been a good acquisition. So far, we are on track to deliver the £150-200 million of synergies that we had declared.

Before handing to Steve for the part he feels more comfortable with, I would say one last word about regulation in Europe. Clearly, regulation in Europe has been seen as negative for the mobile sector. Too much help to new entrants on spectrum, a perception that NGN regulations would help incumbents, and a penalisation of MNOs with obligation to MVNO our spectrum and our access at conditions which are not good.

Now, I have to say we perceive there is a change in attitude and there is more dialogue to move the policies in the direction of helping, both in fixed and in mobile, investment-driven operators. For us, there are two points which are very important, to have more clarity and have certainty of regulation, and three specific, important, I think, battles for us:

- The first one is clearly allow consolidation, but not just allow consolidation, but allow consolidation without punitive undertakings. There's no point in allowing consolidation but then asking to give away synergies, because otherwise consolidation would not happen.
- The second is spectrum auctions have to be fair to investment-driven operators, which is why we, as Vodafone, are challenging the Dutch government for what we see as subsidised help given to one of the operators, which also has pushed up the price of the auction.
- And finally NGN rules, which are to be based on strict and timely implementation of the equality and the non-discrimination on price tests. I'm glad to see that the Italian anti-trust has sanctioned anti-competitive behaviour from Telecom Italia, and we will do our best to make sure that other anti-trust authorities, if not the European authorities, will take similar steps, in case the NGN regulation is not implemented in full accordance to the principles behind it.

For the technical part, I think I should hand over to Steve.

Technology Review

Steve Pusey

Chief Technology Officer, Vodafone Group

Thank you, Vittorio, and good morning. What I'd like to do is share with you our technology priorities and the progress that we've made in the last 12 months. To start with, I'd like to share with you our capex journey. As Andy said, year on year we're kept a pretty consistent in capital. That's because we truly believe that network quality is paramount and we want to maintain the competitive advantage in our networks. As we look at the two splits of our market regions here, I'll talk you through the changes in investment year on year.

If we start with Europe and Common Functions:

- This was a year of advanced 4G investments, as we either launched or prepared launch in most markets, particularly, notably, Germany and the UK, with supporting transport and backhaul.
- We lowered our IT investments in most markets. This is in preparation for a consolidation and standardisation of our IT assets as we move towards a more aggressive transformation of Vodafone.
- And fixed, particularly driven by Cable & Wireless, we're very proud of the integration journey so far with Cable & Wireless. We invested to upgrade some of those assets and integrate them more aggressively into the core Vodafone infrastructure, as Vittorio just explained.

As we look at AMAP:

- Our slightly lower investment year on year, this was largely driven by a lower rollout of 2G in India as we move forward towards the 3G rollout in India.
- Some recovery investments in Australia, as we brought the network back up to the standards we would expect, particularly in the metropolitan areas, where we had some customer feedback on poor performance.
- We launched first, as you heard, in South Africa, 4G, and also we launched in New Zealand.
- And we've been investing to support the growth of the properties of Vodacom international activities to support the opportunity that we have there.

If we move on to look at what customers are doing with our infrastructure:

- Year on year, 53% increase in traffic, carrying a very healthy 330 PB of traffic on the infrastructure now. As we look at the top right-hand side there, you can see the change in traffic mix. As Vittorio said, the average smartphone now is carrying about 350 MB a month. A couple of examples there: our iPhones are up from 310 MB to 425 MB on average; our Android devices are up from just over 200 MB to just over 300 MB; Vodafone Red is showing very healthy early signs of increasing traffic; and our first volumes on 4G, as you can see there again, are over 600 MB, so a healthy increase in the growth of traffic.
- If you look at the bottom left pie chart, we try to share with you an example of what people are doing with their devices, predominated by surfing the web, and looking at videos and listening to stream audio. 74% of the data traffic comes from those two activities. That is growing in line with the average growth in traffic, and we need to build our infrastructure to service that.
- I've pulled out for you a couple of examples of application type growth. Whilst YouTube is growing at 40%, almost in line with average network traffic growth, particularly notably Facebook grew 300% year-on-year; newer TV applications like SkyGo, 240% growth; and I could quote you BBC iPlayer up 200% year on year as well, so a healthy increase in video and, this year, TV on the move.

If we look at where the investments have gone, we really feel that the consistency of the experience is very, very important going forward. The ubiquity of smartphones everywhere as we move out of the city is very important to service, so data population coverage has been one of our key focus areas in the major markets in Europe. We've taken that now to 94%, up nearly four points year on year. A similar story in AMAP, and you can see India, we started to aggressively roll out in the metropolitan areas there with 3G.

The capability has to match the coverage. We've taken almost the entire base to a 14.4 speed capability. That's really important, because the vast majority of all devices today in customers' hands have a 14.4 or lower modem functionality. Of course, while you're servicing the existing base, one prepares for the future, so we've pushed heavily on the 43 MB base. We're up to 45% coverage now. Most of the newer devices either have 43 MB and/or LTE, so we're servicing going forward and keeping ahead of that demand curve. And if you look at the top right, that, of course, has to be supported by the high-speed backhaul. Our definition of that is capable of 1 GB throughput, and we're up to 57% of the base are capable of carrying that performance right now. And we support that with a general transformation through Single RAN, which is 2G/3G/4G in a box, which gives us the flexibility to move to LTE both swiftly and economically.

If you look at the bottom left, as we talk about LTE, we're now live in seven markets, and we're also very pleased to have acquired our preferred spectrum in our target markets, at 800 MHz, which has better performance in coverage and deep indoor, and the capacity layers that we can either use for greater capacity in the future or for a speed-off or, if we so choose, to back that up and supplement it in further markets.

If we look at fixed, we're now live in 16 markets with a fixed offer. Predominantly, today, you can see it's an ADSL base – ADSL2. That's up to 20 MB performance for the customer. But that footprint is moving, it's moving either to VDSL or it's moving to fibre-to-the-home. So we're keeping pace with market demand and with customer demand as we move through to VDSL we're vectoring and the very latest fibre-to-the-home capabilities.

So, what do we expect in the future and how is the network evolving? Usage is growing healthily. We are planning an infrastructure to manage a customer which is generally exceeding more than 1 GB a month in monthly consumption. We can see that route path and we expect that to happen, driven by offers like Vodafone Red, the increased use of video, improvements in devices and network speed.

Of course, to service that, at bottom left:

- We're installing, trialling now and moving forward to installation in some cases, all of the latest technology that our supply base and our partner base can offer us, including small-cell technology, heterogeneous networks, as the market calls them; smart-antennae technology; beamforming, which has quite dramatic improvements in performance that we're rolling out now. Backhaul is really important. We're in there, in most cases, with a 1 GB performance right now; we are trialling 2 GB and we have tested with customers 10 GB microwave capability. I'll give you a reference on that. The very busiest LTE site we have, which is in Germany, which is carrying the fixed-mobile substitution traffic at 13 GB a month, so very heavy traffic loads, requires 150 MB backhaul capability. So we're way in advance of the demand curve right now on capacity for backhaul, something that we keep an eye on.
- Network virtualisation: you'll get to hear a lot more of this from our supply base as they go to a software-defined network. We're at the forefront of that. The first elements will go soft and will go into our data centres towards the end of this year, as we look to virtualise them. For us, that means efficiency in the server base, as it moves to industry-standard IT hardware, and a greater consolidation opportunity.
- Lastly, on the fixed infrastructure, we will move, of course, to more advanced copper technologies as they evolve. We will be testing G.Fast, which, for those of you who haven't uncovered it yet, is 1 GB over copper, as we test that towards the end of the year. And of course, the more advanced fibre-to-the-home technologies. We have had the luxury of installing the very latest in the new installations, of course.

And then lastly, what does that mean in key metrics that we target ourselves with? I've tried to give you a mix here of what we will be challenging our community to achieve.

- Firstly, on coverage – general data coverage – basically ubiquitous coverage, 97%, taking it to the very edges, but we need a consistency of that coverage everywhere.

-
- In the radio capabilities, we extend to 43 Mbps and in line with the device capabilities up to 80% of the base, and, of course, compliment and supplement that as we evolve LTE. Now, that's LTE to 40% of the base stations. Of course, using 800 MHz frequencies, that would be a much larger population coverage than it is, of course, of the base-station coverage, so you'd expect to see that with a wider population coverage.
 - High-speed backhaul, as we move through the 2 GB in line with the radio capability.
 - And probably lastly but most importantly, I'll close on the performance KPI that customers touch. We've been moving away from a raw-speed definition to a customer experience definition. Today, 75% of the connections in those markets, customers would receive a 1 MB performance consistently. That's important and I'll give you one subjective reference on that. 85% of all the video used through our smartphone pulls down the standard called 240p. I won't get too nerdy on you but that's the video standard pull-down and that requires 400 KB, which is the reference we gave you last year. So, we're trying to keep ahead of that, assuming that higher definition, larger device types etc will pull down the higher order of specification. We want the consistency to move by 2015 to a consistent 3 MB experience through our customer base. Of course, most customers will get more. This is the standard that we would hope everyone gets, and at least 75% of the base as a minimum.

So, in terms of our networks, we feel it is a key strategic advantage. We must continue to invest to keep it that way. Convergence is a normal evolution. We will build network cores that are access-agnostics, that can handle multiple types of access and gain the efficiencies as such. The Vodafone network today is future-proof and we aim to keep it that way. And now I'll hand back to Vittorio. Thank you.

Summary

Vittorio Colao

So, before the summary, one look at shareholders' returns. I think that, here, our track record is pretty strong and proven. We have returned £23 billion to shareholders in the last three years, and this excludes the £1.1bn of the buyback which is still ongoing. The 7% growth of the dividend for the third year that we committed to has been confirmed. And today, we are balancing returns to shareholders with investment needs. The Board declared that we aim to maintain at least the dividend level at the current level, which we think is an attractive level in the industry, and we have decided to retain the £2.1 billion special dividend from Verizon for investment in the business.

So, to sum up the year:

- I would say that we are continuing the transformation of the business towards data, enterprise and emerging markets. You can see from the chart, four years ago, we had about 50% of our revenues coming from, let me call it expensive, old, mature markets voice; the number is now 33%. Emerging markets are becoming more and more important and, of course, data is becoming more and more important.
- At the same time, I believe we showed you we have an attractive set of assets. Andy's pie chart indicates that we have a big division which is about half of the company broadly stable, and we have a growing and very profitable emerging markets one.
- Enterprise is 27% of the Group, not only with opportunity for growth in mobile but also in fixed.
- And our convergence strategy, market by market, through a smart combination of wholesale, own deployment and M&A is starting to deliver and we have made quite a bit of progress in the last six months.
- And Verizon, of course, is a very good performing asset – I don't need to say that.

So, we maintain cost efficiency, investment discipline and shareholder returns as priorities also for the next year. Now I will ask my colleagues to join me for the Q&A session.

Questions and Answers

Tim Boddy, Goldman Sachs

I wanted to ask if you agreed with Verizon CFO's assessment of your tax position over the subsidiary. If so, does that change your willingness to potentially sell the asset for the right price?

And then, secondly, moving toward the convergence discussion, perhaps you could walk us through, in your mind, the pros and cons of M&A, particularly of cable assets, which would have compelling brand and operational expertise in the triple-play market. I guess, with that, is there a kind of maximum limit you'd be willing to take the balance sheet in terms of net debt to EBITDA? Thank you.

Vittorio Colao

On the operational question about tax, it's difficult to give an answer to a question which is undefined. There's a number of possible transactions, there's a number of jurisdictions involved, there would be a number of different solutions, so any answer on tax will be dependent upon the specific situation you're talking about. The joke that I could make is that, if the CFO of Verizon is so sure, it means that he will sign a tax indemnity one day. That's good, no? It's a theoretical point.

On convergence, M&A, as I said, and I think we have been very consistent in this, and I sense that investors appreciate this, we want to be in the home, we want to be in the office, and we want to give services to the customers. Now, how you do it is different: it's different by market, it's different by, to be honest, also by the physical distribution of homes and offices can make different solutions more or less appealing. We are considering all options. Today, I can say we are very happy with the results we reached in Germany, but we are also happy to invest our self where we need to invest and, as I said, if we can see good M&A opportunities, we do consider, as we did in the Cable & Wireless thing, but again it's not about the architecture of how you get into the home; it's about getting into the home and having the customer relationship.

And the balance sheet, I don't know – Andy, do you want to take that?

Andy Halford

Sorry, what was your question on the balance sheet?

Vittorio Colao

How far would you go?

Tim Boddy, Goldman Sachs

Would you go three times or three and a half times?

Andy Halford

Blimey. We've been at A- for quite a while. We could go to BBB+. There's quite considerable debt capacity in that move. It would have to be for the right asset, with the right value opportunity. I think somewhere in that zone, it's perfectly workable for us. We've always said we would try to get back to an A- over time, which is what we intend to do. I think running the balance sheet reasonably cautiously has been beneficial. It's enabled us to move, for instance, on Cable & Wireless very quickly, when we had to do that, so there is some capacity there if we wanted to use it.

Akhil Datani, JPMorgan

Firstly, just on your quarterly service-revenue outlook, I appreciate there's clearly quite a lot of uncertainties on the macro front, but I just wondered how you're thinking about the outlook through this year. Specifically, you've mentioned the annualisation of the leap-year effect into the next quarter; you've talked about how the MTR headwinds start to ease through the very back end of this year, particularly with Germany and Italy, so is it reasonable to assume that the Q4 number you've just reported is the low end for growth or do you feel that visibility is not strong enough to allow you to comment on that?

And then, secondly, on spectrum, you highlight in the presentation today that you spent £2 billion a year on average over the last four years. You've also said that part of the reason for retaining the Verizon Wireless dividend was to help fund potential spectrum spend, so should we interpret that in any way as telling us something about your beliefs in terms of potential spectrum bill for this year? Are there certain swing factors that are particularly material in terms of why you want to retain that cash?

And then, looking forward medium term, given the 700 MHz frequency auction that will, over time, come through in Europe, can you just comment on how valuable and important you believe that spectrum is? And when you think about the next four-or-five-year period, do you actually see spectrum spend coming down relative to the current 2-billion-a-year number? Thanks.

Vittorio Colao

So, Andy, why don't you take the leap-year/MTR kind of trend question, and then we will distribute the other two questions.

Andy Halford

I would hope the fourth quarter is a low point, unless a leap year occurs with greater frequency than in the past. The MTR effect will be, overall for this year, at a similar level to last year, so I don't think we're going to get a lot of relief for the year as a whole on MTRs, but the year after we will do. And then I think the rest really is about macroeconomic and just where that goes to.

Vittorio Colao

On spectrum, I think Nick, you are probably... after the Europeans, probably you are the next in line, so maybe you have to say a few words about spectrum in your region.

Nick Read, Chief Executive Officer, Africa, Middle East and Asia Pacific Region

Basically, there's three lots of spectrum coming up this year. So, we've got India maybe. If we can get the EGoM to come out with reserve pricing, the magnitude and spectrum they want to auction, already that process is running late, so it's not going to happen in June and I think it's going to push on for a couple more months. And of course, we've got the whole debate going on around 900 renewal, and it's going through the Delhi High Court. I'd say, in terms of South Africa, you've got the 2.6. I don't see that being too significant. And of course, we've got the renewal payments in Australia.

Vittorio Colao

700 – Steve?

Steve Pusey

700, similar properties to 800. We're quite well suited in our major markets on 800. For me, it would be an either/or. We've got two times 10 in most markets. If 7 comes up in markets where we don't have 800, it may be attractive. We don't need it for a capacity or performance layer to get reach right now. Of course, from my point of view, always having more is better, so it's price economics and need at the time, really. We're very well suited in the cities, because we've got the 2.6 and the 1800, and one presumes, by the time

we get out to the 700 auctions, we'll be re-farming some of the 2.1 as the traffic moves on to the LTE layers, so I think we have enough spectrum that I can foresee, but if it's the right price economics.

Vittorio Colao

Steve, I was just checking. I think we have, what, 60% second carrier, 20-25% third carrier used today, so we have a pretty good situation of spectrum, and it was part of the strategy over the last years to put enough into the house so that we can exploit, so I don't perceive that there is a huge urgency to move to that.

Akhil Datani

If we're putting that all together, do you think the spectrum bill starts to reduce relative to –

Vittorio Colao

In theory, we have, what, one more year?

Andy Halford

Yes, I think one more year.

Vittorio Colao

It's one more year, if Nick behaves.

Nick Read

I will try my best.

Stephen Howard, HSBC

Two questions: firstly, slide 39; you highlighted some of the battles you've got to fight on the regulatory front. Could I just ask you, perhaps, to be a bit more specific? The Commission is drawing up proposals to create a single market. What in particular out of that are you looking to see in terms of concrete proposals? And are there any areas that we should be particularly concerned about; for instance, proposals over roaming? So, that's the first question.

And the second question is: just looking at the wholesale NGA arrangement that you've come to in Germany, which is quite a departure, I feel, from some of the comments we've heard in the past out of the German market, and encouraging to see that you can work with a local incumbent, if an equivalent product had been available in Spain, would you have used it or were there other factors behind your decision to build there?

Vittorio Colao

I take the regulatory question and then I would leave to Paolo and Philipp to comment on, and contrast also, the two different situations. On the European single-market thing, we need to understand exactly, quite frankly, what they mean by it, and I'm not so sure that there is a thorough understanding of what exactly they mean. If this means more harmonisation, more pro-investment, pro-competitive rules, we're fine. The practical implications, as always in regulatory matters, are what really will define whether there is something very good there or just another step in a long path.

On roaming, roaming is about 5%, Andy, of our revenues today.

Andy Halford

Yes.

Vittorio Colao

It's about 5%. There are moves. There is this new regulation of unbundling and splitting roaming. Quite frankly, we are working to adapt to it. I have the sense that, once the roaming new regime will be in place, and once everybody has adopted it, it might be a much less relevant issue, because roaming is more and more included into pricing packages. For large companies, it's already the case; for high-end consumers, it is and it will be more and more the case. So, I have a sense that it is something that will be less. It's very politically nice to talk about it but it will be less and less. We have three million customers using our daily allowances. We will push it again next summer in a massive way, with a big penetration of smartphones. By the time the new regulation and the new model will be in place, I am not so sure it will be such a big thing.

Philipp and Paolo, the good and the bad.

Paolo Bertoluzzo

Why don't we let Philipp start with a comment on Germany and then I will come on Spain.

Philipp Humm

I think in Germany we have strong regulation and we have a rational incumbent. We evaluate the NGA deal we have with Deutsche Telekom as being positive in particular, because we have a layer three and a layer two product, which will be very important for us to basically control quality of service and also be able to differentiate our products. That is Germany, and now I hand over to Spain.

Paolo Bertoluzzo

I will not compare on your opening point on stronger regulation and rational incumbent, because that would be a little bit tricky. I think that what has been done in Germany is very sensible. I think it is manageable for both companies. Actually, if there was anything similar to that possible in Spain we would definitely consider it. We don't believe that for the industry, building a third of fourth infrastructure is by itself the most forward-looking move, but that's what we are doing, because it's still positive for us to do it. You should not forget that building in Spain or in Portugal is much lower cost than building in places like Germany or the Northern European countries. Nevertheless, we would definitely consider this because it is better for the industry and better for Vodafone, and we believe also better for the incumbent.

Vittorio Colao

Good. We go back one back and then we move to the other side to Nick.

Nick Lyall, UBS

Morning. Could I ask two please? On the cost cutting, Andy, what extra flexibility do you have into March '14? Because it seems like you've cut IT spending quite heavily already, and obviously quite an uncomfortable position with SAC cuts in Spain. So is there more you could do if the top line turned out to be more difficult than you expect? And which areas would you have to attack, do you think? Secondly, the medium-term cash flow guidance has gone, the old 5.2 to 6.2 billion. Is that something you expect to come back to over time, or is that lack of visibility now that just removes that completely?

Vittorio Colao

Nick, do you mind if I take the first one, because I want to give you more of a broader answer? Andy then will integrate. You are right in pointing – if you look at Steve's chart, we tried to spend less on IT and services and it is part of the simplification effort that we are doing. The reality is that I believe that telcos,

including Vodafone, have spent a huge amount of money on little products. When I made the comment about innovations that really differentiate, that's exactly what I was referring to. We are progressively shutting down – you might remember we had the music service. We are shutting down the music service and we are trying to take away legacy [IT]. We have a big project that we didn't talk about today, which goes for standardisation of our systems. We do believe that not only this will reduce the cost but it will always take away a lot of complexity for our company. That's part of it.

Now, interestingly enough, in the bar chart of Steve's you see that already this year the investment in fixed is going up. So, we think thicker, better performing networks and a little bit more simplicity at the IT level is where we should go. Now, Andy.

Andy Halford

Which one: the narrow answer or the medium-term one? No, I don't see us returning to that in the near term. I think it is just difficult to go and forecast the sort of macro-economic environment. Economists find that difficult, let alone us, so I think it better for us to guide on a period that we have some confidence about, rather than have guesses over the longer term.

Vittorio Colao

So, to the other Nick, and then Matt, and then we come back, Andrew.

Nick Delfas, Morgan Stanley

So, I just wanted to question you on the European consumer product. It does not sound as though European scale and footprint is the major selling point to the consumer market, so what is the Vodafone USP to the consumer? If you think about your comments, about unified communications, you always have inferior scale to the incumbents on unified communications and that could be important when you go out to buy content in the future. So, have you got sufficient scale for a unified effort in Europe?

Vittorio Colao

If you don't mind, I will take the answer, and Paolo and Philipp if you want you can integrate. First of all, what is the Vodafone – I think we are driving the industry towards what we think is data scale in consumer, and Vodafone Red, and all the developments of Vodafone Red that are in the pipeline, both at the high end and the low end, is what we are offering. Quite frankly, I have never seen in my life the NPS go up 16 points just because we launched something. That is, to me, the confirmation that, actually, we do have a USP and we do have a perceived advantage. Again, anecdotally I can tell you that if you go to Italy or even here in the UK, where we have now more than one million customers, they tell us: this is great. This is really working in the right way. The more we will add iPads and tie them in in these things, the more we will be similar, more similar to the US market.

On the scale in UC, of course if you put everything together, we do not have the scale, which is why we have announced our strategy and we are implementing our strategy to get the same economic possibility of that scale. Now, I do not need to have exactly the same scale. In Germany, we already have a pretty good scale. With a new deal we would be able to increase it. In other markets we are finding different ways. It is not a universal European thing, and that is why we said it is market by market. We will have to be financially disciplined, because I also see other players implementing strategies that I am not so sure they are very financially disciplined. So, it is a market by market thing, and I am honest in saying I cannot give you a blanket answer for Europe. Paolo?

Paolo Bertoluzzo

Maybe two just specific examples. I think Vodafone Red is a great one. If I, for example, take Italy, which was not and is still not a big contract market, but nevertheless, 40% of our contracts today in consumer are on Vodafone Red. It is the combination of unified communication, which is actually what customers really love, on a great network and with a great service component attached. It has marked service attached to it. This is the reason why they are choosing it at the end of the day. On the scale, I think that we are finding

solutions market by market, which are also trying to be sensible to the scale that we have there. For example, we were talking about Spain and the possibility of wholesale deals there. They are not available. We are co-investing with a company which has a scale which is somehow similar to ours, and therefore we are sharing investment and therefore building out to 40% of the population in Spain.. for us is going to be half a billion investment, with the other half being put by a competitor of our scale.

Nick Delfas

I will just ask a very quick follow up. How big are the upfront payments on the German fibre agreement and how is that accounted for?

Vittorio Colao

We don't disclose the details of the agreement at this point in time, so bear with us.

Emmet Kelly, Merrill Lynch

Just two questions, please. The first question is on LTE pricing. I am just wondering if you could give us an update for LTE take-up across your European footprint. Clearly it's all guns blazing in the US with I think 28% of the base now using LTE handsets. I have just noticed a little bit of a difference in how you're pricing LTE compared with how the Americans priced LTE when they launched it a couple of years back. I think Verizon charge the same for 3G as they did for 4G a couple of years ago and that might have helped take-up accelerate, whereas in Italy and I think in Germany you are still charging a bit of a premium for LTE. I think it's a premium for speed. I am just wondering how you feel about that strategy and whether that is maybe delaying take-up of LTE.

The second question is one for Andy – a pretty quick one. It's just on your cash taxes. If I look at your end-year, your profit before tax for the group is probably pretty flat, at somewhere around the £10 billion mark. However, your cash taxes have jumped from £2 billion last year to £3 billion this year. If you just give us a quick idea of what's going on there, what the outlook is for cash taxes for the future – is it more £3 billion than £2 billion? Thank you.

Vittorio Colao

The first question, I would say Paolo and Philipp.

Paolo Bertoluzzo

I think LTE is starting to see some traction now, now that we have started having smartphones of high quality in the higher end base. As you know very well, most of the high-end smartphones today are coming with LTE functionalities, and therefore you start seeing this going into the base as we speak – at least I'm talking about Italy and Portugal where we have launched LTE and we are rolling out pretty fast. On the pricing point, I really believe that as an industry, we have to use these types of opportunities to try and ask our investment to pay it back, because the service is much better than a good 3G service. The customer experience is really improved on all components, from browsing to video, to HD video, to whatever else you want to do with your smartphone or your tablet. I think the industry has to try and price it for what is the cost to deliver it. We are resisting on this point in Italy and in Portugal. Our competitors are a little bit in all directions. We see incumbent in Italy having a similar position and therefore we are not firm in trying to do that: third and fourth operator in a different place, but they also basically have discounted something they don't have, therefore it's a much easier position. Portugal – incumbent and third player are in a slightly different direction but we believe we have to try and do it.

Philipp Humm

Yeah, in the markets we are currently in, in the UK, we at this point in time don't have LTE yet in the market. It will be by the end of summer. If we look at the competitor, EE, it maintained the price premium, which we think is the right strategy to do. In Germany where we have LTE and more than 800,000 customers on LTE, we try to sustain a price premium and we launched another rate plan besides our Red rate plan, which is a

smart rate plan, which actually offers 3G services at a lower price, partly to make sure that we really stabilise a higher price point for LTE in the market.

Vittorio Colao

Good. One more question here, then I see Rob.

Andy Halford

Sorry, there was a follow-up on the tax. It is very largely about the US and it is three components to the US. One is the profit of the US is significantly higher. The second is bonus depreciation was lower this year and therefore less allowance, more tax, and the third is that slightly more tax is being paid by the parent, which shows in our tax line, and slightly less being paid in Verizon Wireless, which shows in the AOP line and is net neutral. Overall, we had a cash tax about 0.3 billion higher than our group P&L tax charge and I guess going forwards we will be a couple of hundred higher on cash than on P&L directionally.

Vittorio Colao

Andrew, then Rob and Jerry, Simon.

Andrew Beale, Arete Research

I guess it seems like there is potential for the shape of the group to be – how can I put it – a little bit different in a year's time from the way it is today. I guess most people think that that's all in the hands of Verizon, but theoretically, you could do a lot more yourselves. I was just wondering how we should weigh up your thinking about that as a priority and your agenda, how comfortable you are with the current shape of the group, what else you could do to optimise that for the benefit of shareholders?

Vittorio Colao

This is an excellent question. Thank you very much for asking it, because you are actually pointing to a very true point, which is the two things are not linked really. Verizon is one story. As I said always, we are the guardian of a great asset. We are very happy with the situation, but if a better situation surfaces, of course we will consider it. The change – it was really my last slide. I really feel that we are – not at the beginning but we are already kind of progressing into a big shift from what Vodafone used to be, which was to be mostly Europe, mostly consumer, mostly mobile, into a new thing, which is more balanced, more enterprise, and in the home and the office, more converged. We are going to move in that direction anyhow, regardless of what Verizon, which is a huge part of us but is a minority in the end, will be. All the steps that we made in six months actually indicate that we are moving. So, thank you for the question. The two things are not linked. You are right.

Andrew Beale

And can I just come back to – you made some comments about European M&A rules and so on. There have been some pretty ugly precedents in terms of remedies in Austria. There is obviously a bit of disagreement between perhaps competition and digital agenda on some of these issues about M&A. What is it specifically that you think realistically might change, that makes deals possible?

Vittorio Colao

Here you are talking about mobile to mobile, really. The point which is relevant is mobile to mobile, because mobile to fixed is not an issue, and fixed to fixed, there is not much anyhow. The point is really the remedies that are put in terms of conditions to MVNOs and the real thing that I believe in, and we are advocating it – we should get out of the common practice, is this concept that spectrum is sunk cost. I mean, we pay spectrum. We pay spectrum upfront. It should be reflected in the conditions that we make to third parties. If the market goes from four to three and in my view, also from three to two, but it depends on the size of the market, no punitive remedies should be put. The reason why certain deals – I will not mention which ones –

did not go through, is because once you weight the synergies and the cost and everything they can take out, and you take away the cost of the remedies, basically most of the advantage is gone. So, this is the single point that has to be taken out from the current approach of the regulators and leave it to individual companies to decide what they do. Robin, Jerry, Simon, Maurice, and then we go back there again, and then Justin and then we come back to this side again.

Robin Bienenstock, Sanford Bernstein

Two questions, if I may. First, you point to Verizon Wireless and their impressive margin expansion in the last couple of years. I am wondering if you think in the context of the US wireless market that those are peak margins or are they sustainable. Where do you think the wireless market is going, given that it is such an important part of your business? Secondly, obviously you have to have different solutions for each market but I am just wondering if you could explain to me in a bit more detail how it can be economically accretive for you to make the third or fourth NGN network in Spain. Thanks.

Vittorio Colao

Yes. I take the US, and then Paolo, you want to take the Spanish question. The US market is structurally very healthy and it is actually very healthy for two reasons. First of all, the spectrum portfolio that Verizon has and to some extent AT&T has is very good and the investment that they have made over the years, constantly for the last 10 years, is giving a very, very big, I would say, thick capability nationwide, not just in specific places, which of course is turning into a price premium that we have been able to sustain. Now, will it be more challenging in the future? Quite frankly, probably, but I'm not so sure how much money and how long it would take to really change these conditions. If you look at the ARPA accretion, as you look at the trends in every parameter in the US, it is just fantastic, and it is very hard to see, even if you model the economics of a new entrant or a consolidation, to see how the situation can be structurally very different in the short run. So, our position is this is going to be a good asset, at least for the immediate future, because of structural elements of the market, not just because of good execution and things like that. On Spain, Paolo?

Paolo Bertoluzzo

Well, I think as always it depends where you are in the sense that one or two years back, building a third or fourth infrastructure of fibre in Spain would have not been our priority in terms of where we put our money. Given the fact that we have an incumbent which is forcing through discounts convergence into the space, obviously we have looked at the options that we had in front of us to go for it, because we have to go for it given what we are seeing at the moment commercially, and doing what we are doing at the moment is by far the best of the available options. Again, there was a comment before around Germany. Maybe there would be a better option, but it depends on the price. We have looked at other inorganic options but we believe at the moment, this is value creative and it is by far the best.

Vittorio Colao

And the advantage of self-deployment is that you can, unlike mobile which has a ubiquitous, pervasive kind of characteristic, you can prioritise areas, so you can, to put it bluntly, bring fibre to the rich or fibre to the business before you bring fibre to the others. It is a modular investment.

Robin Bienenstock

But you think the return on invested capital is going to be better than your WACC?

Vittorio Colao

If you share it with somebody who has a more or less or similar scale, so if together you can go on a customer base which exceeds 30%, yes. This is the case of Orange plus Vodafone, but that's why Paolo said sharing is the scale that Nick Delfas was referring to..

Jerry Dellis, Jefferies

Two questions, please. When you adopt IFRS 11, I think the perimeter of your free cash flow guidance will change to include dividends received from Italy rather than your economic interest in the cash flows there. I just wondered whether you expect the Italian dividend to be of a similar size to cash flows this year. And could you just confirm whether Verizon's approval is needed to make that distribution? Secondly, on convergence, I think Verizon Wireless is also looking towards convergence and there may be an announcement with cable coming in the fourth quarter. I just wondered whether you could explain the management safeguards for dealing with profit allocation issues as uptake of convergent products becomes more material.

Andy Halford

Okay, let me take the first one. So, yes, you are right that under the new accounting we will deal with cash dividend received rather than share of cash generated. Recent history is actually the two have been pretty similar, so therefore it won't produce much of a distortion, and I wouldn't expect there to be much of an issue going forward. Yes, it is a decision with Verizon on the dividend, although history would suggest that they are keen to receive the cash.

Vittorio Colao

On the safeguards and everything else on Verizon, let me tell you first I would not comment on what Verizon Wireless intends to do, because it would not be appropriate. I have to tell you that we are pretty solidly convinced that nothing can happen which is detrimental to our own ownership in the 45% of Verizon Wireless because of transfers. There is a process. It is a very professionally run company. We have the Chairman of the Audit Committee here, so everything is under control. You know, by the way we are already allowing Verizon Wireless and Verizon Comms to do a lot of things between themselves, because they are turning into strengths for Verizon Wireless, so it would not be sensible for us to say no if it makes more sense to do things across the two companies. Of course, we want to have an arm's length type of cost allocation.

Simon Weeden, Citigroup

Two areas of questions. One is on small cells. I just wondered where and how quickly you want to proceed with small cells and whether you are getting the support that you need for siting rights, if indeed you need siting rights from the authorities. The second question was around India and whether you could give us a bit more colour on the outlook for the rest of the year and whether or not IPO have either one or both of Indus and India is still on the agenda.

Vittorio Colao

Yes. I would say Steve and Nick.

Steve Pusey

Yes. Small, cell technology is quite advanced now, so from the supply point of view we are very happy for having range in the specification and size and scale and everything that we need, and costs are in the right ballpark. On the siting rights, that varies country by country. Some countries it makes sense. Usually in metropolitan areas, the business case is still challenged based on the cost of leases that they are asking for. So, it is really a country by country answer gated by the cost to deploy.

Nick Read

So, on India, what I would say is fourth quarter service revenues were on an underlying basis slightly down on third quarter, but I think if you stand back and look at the trajectory of the Indian market, I would say there are four positives to look for. The first would be that we are gaining customer minute share off the back of effective consolidation. Actually, I was looking at the stats recently. You are seeing stage one of the consolidation, so there was on average 13 players in every circle. That is down to eight. Of the eight, the top six are taking 95% revenue market share. I think the eight will drop quickly down to six because the top four

are taking around about 80% of the revenue market share and the good news is we are in the top four in all but one circle and we will correct that this year. So, I would say we have got good scale across the piece. I would say revenue per minute is starting to show signs of hardening and I think you will see that going into the new fiscal year. Third is the data opportunity that Vittorio talked about, with 30% growth, and we are reaching an annualisation of the consumer regulation that we got hit with in the year. So, generally positive that revenue growth should start moving back up again, and I think we have done a good job of margins and scale and I think we should see that rise as well.

Maurice Patrick, Barclays

A quick question on the Red tariffs. You have talked about the £4 ARPU dilution. Could you share some thoughts on the extent to which you are seeing people spinning down from higher tariffs onto that, and possibly some signs of people spinning up from lower tariffs onto that? It's a bit of mix around that. Then you talk about the SAC – the A&R efficiency within the Red tariff, so how should we think about overall SAC levels in the March 2014 year compared to March 2013?

Vittorio Colao

We have about one third new customers and two thirds existing customers, so the two-thirds more or less split half come down, half go up. The net result is the minus four points that we are seeing. Now, in our Verizon experience, and I can talk about that, because they made public comments about it, after a while this starts balancing. The first ones running are of course the ones who are spending £90 or £80 and they immediately go down. Then over time, the true message comes across, which is data, free data, unlimited [voice and SMS], worry free. That is what Paolo was referring to as the true – in answering to Nick Delfas' question – the true appeal that has to be there is not the saving, because I spend less, but it is I am free to do what I need. This is a little bit what we are aiming to. We don't give a time for that to happen, because honestly, there are so many moving parts it is very difficult to give a timing. But we are seeing gentle progress in that direction and I am really happy with the reception that the customers have got because the more they are positive the more they will talk about it, and the more they will pull the customers who have to go up more than just the ones who are coming down. These are more or less the dynamics. Philipp, do you want to add something?

Philipp Humm

Maybe just one comment, because we have talked on the one hand about the migration which has a certain temporary diluted effect, but the other effect which is important is that the average ARPU we achieve with our Red customers is significantly higher than the ARPU we achieve with the average smartphone customer, which is the other positive aspect as this goes through the base. We will have a positive uplift there as we are able to maintain or win customers who are very attractive in the market. So, talking about Germany and the UK, we are talking about €6 - €11, depending on the segment enterprise or consumer in the country improvement relative to the smartphone base, so that is another effect which over time will pay out quite positively on Red.

Vittorio Colao

Very good. Justin.

Justin Funnell, Credit Suisse

A couple of questions, please. Do you think the German regulator is going to do an auction of the 2G spectrum that expires in a couple of years? I think a decision should be imminent. Secondly, do you think you can hold your price point on Red? You have seen in Italy, Spain, Germany to a degree, smaller bundles coming in at much lower prices by challengers, and quite a lot of activity down at the low end of the market. If you just take the example of Italy, you have got price points of €4 or €5 for a small bundle of voice, but quite a lot of data. Is that a threat to the Red tariffs in terms of the price levels? I don't disagree with the structure, just the price point. Finally, a big picture question. You have got Charlie Ergen in the US saying that there are major synergies from putting a TV distribution company together with mobile. If you take that analogy into Europe, do you see similarly large cost savings from putting cable together with mobile? Could just the cost synergies alone make that sort of deal worth doing?

Vittorio Colao

Why don't we have Philipp on the German 2G renewal, Paolo on the crazy price points of our competitors, and then maybe I take the broader question on synergies?

Philipp Humm

On the German renewal, we don't really have a final opinion at this point in time, so we are still waiting, and once we have a better view of what the regulator will do, we will be able to communicate to you, but not yet at this point in time.

Paolo Bertoluzzo

I guess the question was more starting from can we defend the Red price levels we are in at the moment, but I can also comment, Vittorio, on the crazy price points of our competitors if you wish. I think that we have seen very different reactions in different markets from different players on our price points. I think overall it is more or less what we expected, I have to tell you, in the sense that incumbents in general – competitors with stronger networks and stronger assets and probably more reliable services – tend to be calm on the pricing around Red because their big customer base is exposed to this type of pricing and therefore they are not necessarily matched immediately or downgraded the price immediately, while obviously we have attackers which are trying to discount data as well as normally an attacker is discounting everything we do. That is not a surprise either, no.

I guess we are now entering a second phase of Red which is making sure that we build the credibility that it is not just a tariff plan, as Vittorio was saying, and therefore making a difference in the network and the service, in the multi-device, into the family propositions which at the moment are mainly a Vodafone-exclusive type offer. Actually, we will have to make it more and more relevant for the customers and looking at what is happening in the US can be very relevant to the customers.

Yes, you are right, when you compare €13 price points for Vodafone Red in Italy in contract to a €10 price point, which the competition is driving for 400 minutes, 400 messages, 1 GB in prepaid, it is an issue. You are perfectly right. I think we have to remain calm in that situation in the sense that we are definitely responding now, given the direction the market is taking, with the appropriate space. So, we did rightsize our premium because enough is enough. We tried to do whatever we could do to drive the market in a different direction but clearly this is not the phase. I believe that we should wait to discount Red. We can do things around Red today. The proposition in Red is a very rich proposition. For example, it comes with 1 GB of data because that is where the market is and the competition is, but for the moment I think we should try and stick to the core strategy because Red is not a short-term run; it is a longer-term type of thing.

Vittorio Colao

Yes, and on the question on synergies, listen. There are, of course, synergies when you put together infrastructures. We are incredibly aware and we see very well the mobile-to-mobile synergies. Then you have the fixed synergies, if you have a similar type of infrastructure, which is the classic telco synergy. Then probably cable, which at the end of the day is similar, but is not exactly the same. Honestly, when you get into satellite, I would imagine that there are synergies. How big they are, I am unable to kind of say, but it's obvious that the more you put distribution pipes together, the lower your cost per unit carried is, but also the more powerful, the more resilient, the more performing your infrastructure becomes. It's a continuum that goes from – and we have experience ourselves of the Arcor case, of the TelstraClear case, of the Cable & Wireless [Worldwide] case. It is clearly an appealing thing, hence my comment about consolidation that the more they put punitive conditions around them, the more they take away the advantage from synergies. But yes, there is a continuum of different size synergies that in any distribution platform you can achieve. John, you have been so patient. Thank you.

John Karidis, Oriel

I just wanted to ask details around questions that have already been posed. So, on the Red ARPU, you said £4 reduction. What are the absolute numbers? So, £4 from what has it fallen down to? Secondly, everything else being equal, how many Red customers would you have to have for the ARPU dilution to

actually reverse and start having people spin up? You said you want 10 million Red customers by the end of this year. Does this have to be 30 million for the ARPU to start growing or 15 million? Then on this issue on cable, all I am trying to understand is whether you buy it or get the chance to wholesale it. How significant would be the operational challenge to combine what you have now, which is VDSL or DSL based, with DOCSIS 3.0 when it comes to creating a sort of uniform service offering to your customers?

Vittorio Colao

Okay. Why don't I give the question on Red and ARPU to my colleagues and eventually Morton – if you want to chip in, you can as well. Then Steve and myself will take the technology complexity of different platforms and different delivery mechanisms. Philipp, Paolo – ARPU and how much do we need?

Philipp Humm

I don't have handy now for my markets the ARPU starting point of the dilution, where the delta is around €4. That being said, as I said earlier, the ARPU we achieved with new customers is significantly higher than the ARPU we achieved with our average smartphone customers, in the order of magnitude of €6 to €11, depending on enterprise, consumer and country we are looking at.

Paolo Bertoluzzo

I guess a fair number would be ranging between €40 to €50 with the consumers being closer to €40 and enterprises being closer to €50. You have to take into account that a lot of Red customers are on a SIM only package without subsidy, which basically gives a different value to this ARPU because it is our services ARPU, so it is coming to us. It is not going to terminals. In our plans, we are obviously assuming a gain in market share and it has come in more or less as we had expected. I think a key part of Red is actually a stabilisation of the customer base, a stabilisation of the spending, and a decrease of ARPU. I think for these elements that you listed out what we are seeing is actually reassuring but I think is still a bit early on these elements to make an assessment.

Vittorio Colao

As Paolo said, think net of the phone between €40 and €50 and the changes by market, to be honest. I was checking while. Steve, how complicated is it to run a variety of platforms, keeping in mind that already in Arcor or in Germany today we are running a variety of different solutions between resale and different DSL and so on?

Steve Pusey

It's been done before in the world integrating the physical layer, particular optical layers etc., as well as the DSLAMs or VDSL. The challenge will come on ubiquitous service interfaces where one would have to evolve user interfaces and IPTV and TV services etc., so most of the work will be at a consistency which perhaps on a day one, one might envisage is not only necessary but over time you'd want to make them look similar in touch and feel. So, physical infrastructure is okay. That doesn't frighten us; it's been done before and the time and effort will go into the service layer integration.

Vittorio Colao

Shall we take one question from there, and one more from here? You've been waiting kindly.

Ottavio Adorisio, Societe Generale

A few questions. Starting from slide 17, you basically pointed out that free cash flow was £9 billion the year before, £8 billion this year and now you are going for £7 billion next year. So, if you can share with us if and when cash can stabilise, taking into account the two different drivers of Verizon Wireless dividend and your control operations? The second is for Philipp. It is basically to gain a bit of insight about the margins you make on these wholesale agreements. Back of the envelope exercise. Basically, your cost almost doubles

from €10 to almost €20 – €19 or €20. This is all sort of agreement you strike with Deutsche. Meanwhile, the cable companies keep a pretty good cap on pricing in terms of the retail, where a 50 MB line is already retailing at €26. Now, you do well basically to point out that a strong wholesale should come with a strong framework on price squeeze, but the problem is that there is not a price squeeze wholesale agreement that you can enforce on the cables, because the cables are not subject to regulations. So, if you strike a wholesale agreement with an incumbent, meanwhile the pricing on the retail market has been pressurised by the cables, are you not running a risk that actually you basically are loss-making on this wholesale agreement?

And the third is on spectrum. Actually, it is a follow-up from a previous one. I basically gather that you talk about all the new spectrum when you talk about '100 millions' budgeted for investments. Now, there is a big elephant in the room about the UK renewal. It is basically coming up pretty soon. Then there will be actually Germany. Italy is coming also. So, my suggestion is that it is pretty difficult to basically tell a number, but we have to budget '100 millions' for that, or in the billions, in terms of the investment to renew your spectrum in Europe? Thanks.

Vittorio Colao

Let me give the first question to Andy, the second to Philipp, and the third between Andy and myself we will deal with.

Andy Halford

I think on the cash, remember that the absolute cash amount has decreased from the US but the time frequency of receipt has increased so it really depends just upon the frequency of the dividend and clearly what we have put into the guidance for this year is the June dividend, which we have clarity on. We will see what happens thereafter. So, I think the US is more about just the frequency of receiving the cash and obviously a pattern now being established. Control businesses for cash flow – this comes out a little bit. You're right – pressures in Southern Europe has caused that to happen and our absolute belief that we should still spend on networks and keep the spend up during that period. We are obviously working on what we can do with the rest of businesses and take costs out to make sure that that cash trajectory stabilises and over time, as the macro-economic environment picks up, so should the cash flows.

Vittorio Colao

Philipp?

Philipp Humm

On the question on broadband and cable, we are today from a price positioning positioned below Deutsche Telekom in the market in broadband and obviously above cable, which are marginalising broadband on an existing infrastructure. Now, if the pricing pressure in the market were to increase, the one to notice, it primarily infers, would be obviously the market leader, and if the market leader reduces prices, as it is regulated from the outset, the wholesale price would have to follow, which basically is always a way of regulating if you want also the EBITDA margin. We obviously do not make an EBITDA margin of an infrastructure player, as we don't have the same infrastructure, which is kind of logical, but we also don't have the capex linked to the infrastructure. So, from our point of view, it is actually quite an interesting product from an EBITDA and in particular from a cash flow point of view. Also, going forward, while we think it is financially interesting but also from a differentiation point of view interesting as we are moving not only layer three but also on layer two.

Vittorio Colao

And on spectrum I think the correct answer, but Andy help me if I am wrong, is that we really don't know what the conditions would be. We believe it is going to be more likely to be yearly fees rather than big upfront payments, which is I think two or three years down the road, and when we have news we will update you. A final one.

James Ratzler, New Street Research

Two questions, please. The first one was, if possible, I would like to just push you a bit more on your thinking around Verizon Wireless. We've had a lot of rhetoric from Verizon really since January on their willingness to do a deal. What is holding you back from your side. Are you conceptually opposed to not having Verizon Wireless in the group? Is it complexities around the structure of any deal? Tax visibility? Price? It would just be interesting to get some more colour on that. Then the second question was regarding your EBITDA margin guidance. Last year, your EBITDA margin has been essentially flat. You are now guiding to a slight weakness in EBITDA margin despite an acceleration in your cost-cutting in the European business. So, just again, what is causing that? Is that more commercial costs? Is that a slowdown maybe in the emerging market region or in the margin expansion? It would just be helpful to get some more colour on that. Thank you.

Vittorio Colao

You can definitely try to push me on Verizon; whether I will move or not – especially if what is pushing is rhetoric – I think that I need something more solid and of greener colour to be really moved away. There is no – this conceptual opposition thing is just nonsense. I have said all the way through from – actually, if you remember, the first thing I did when I was appointed CEO, we took away Verizon from the operating units and we said: this is really Andy and myself. This is a minority. I think I did it three or four months after being CEO. I said: this is really a minority. This is a great minority. This is a fantastic minority and it is a minority that now sends an envelope every now and then which we really enjoy opening. So, that's where we are. It's a great company. It generates a lot of cash, has advantages for our shareholders, and we are conceptually opposed to nothing other than anything which is worse than the current situation, which is a nice situation to be in. So, if there is an improvement in the value realisation for our shareholders, of course we are open to it. The board is very open. We continuously look at things and again, the rhetoric is not enough to push me. Having said that, my mind is open. We listen and if things change, we will update you as soon as we have anything that we need to disclose. Andy?

Andy Halford

End on a high note: the margin. Trying to guide on the margin to spurious degrees of accuracy is really quite tricky. I think all we are doing is saying: look, if next year there is the opportunity to push one or two markets to get more growth, we will go for that if it is in the best interest of the business. If that costs a little bit of margin, so be it. You are absolutely right: what we are doing with the cost should help and what we are doing on Red should help, but we are just saying: look, given unpredictable markets, if we have to spend a little bit more, but it is a good thing to grow the business in the long term, we will not be afraid of doing it.

Vittorio Colao

Good. I would like to thank you all for your questions. Again, as a conclusion, I draw your attention to the final chart. The transformation that is taking place is significant at Vodafone and the assets we have – the three big blocks, forgetting for a second the largest minority in the world, are solid and moving I think into the more appealing growth space of enterprise, data and emerging markets. Thank you very much and I look forward to interacting with you in the coming days.